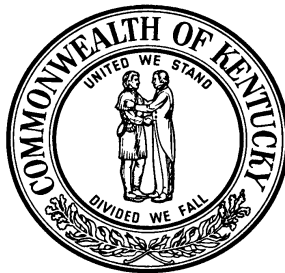


**REPORT OF THE AUDIT OF THE
SHELBY COUNTY
CLERK**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SHELBY COUNTY CLERK

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Shelby County Clerk's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$1,088 from the prior year, resulting in excess fees of \$245,412 as of December 31, 2009. Revenues decreased by \$802,488 from the prior year and expenditures decreased by \$801,400.

Report Comment:

- The County Clerk Should Collect Delinquent Taxes Before Renewing Current Year Registrations

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rob Rothenburger, Shelby County Judge/Executive
The Honorable Sue Carole Perry, Shelby County Clerk
Members of the Shelby County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Shelby County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2010 on our consideration of the Shelby County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Rob Rothenburger, Shelby County Judge/Executive
The Honorable Sue Carole Perry, Shelby County Clerk
Members of the Shelby County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk Should Collect Delinquent Taxes Before Renewing Current Year Registrations

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Shelby County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

September 14, 2010

SHELBY COUNTY
SUE CAROLE PERRY, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State Fees For Services	\$	15,818
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Fiscal Court		9,651
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	1,193,223
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Usage Tax		2,598,147
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Tangible Personal Property Tax		3,001,773
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Other-

Marriage Licenses		8,839
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Deed Transfer Tax		125,680
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Delinquent Tax		848,258
		7,775,920

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		19,172
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Real Estate Mortgages		99,458
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Chattel Mortgages and Financing Statements		76,065
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Powers of Attorney		2,819
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Releases		21,610
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Motor Vehicle Notary Fees		13,790
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Affordable Housing Trust		58,026
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All Other Recordings		43,583
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Charges for Other Services-

Candidate Filing Fees		1,100
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Postage		3,992
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Copywork		5,433
		345,048

Other:

Miscellaneous		16,008
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Interest Earned		3,855
		8,166,300

Total Revenues		8,166,300
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The accompanying notes are an integral part of this financial statement.

SHELBY COUNTY
 SUE CAROLE PERRY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 832,600

Usage Tax 2,520,198

Tangible Personal Property Tax 1,147,557

Licenses, Taxes, and Fees-

Delinquent Tax 75,290

Legal Process Tax 32,903

Affordable Housing Trust 58,026 \$ 4,666,574

Payments to Fiscal Court:

Tangible Personal Property Tax 324,068

Delinquent Tax 68,078

Deed Transfer Tax 119,396 511,542

Payments to Other Districts:

Tangible Personal Property Tax 1,410,082

Delinquent Tax 499,318 1,909,400

Payments to Sheriff 2,042

Payments to County Attorney 128,207

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 320,496

Employee Benefits-

Employer's Share Retirement 61,468

Employer's Paid Health Insurance 67,229

Employer's Share Social Security 29,157

Contracted Services-

Microfilming & Indexing 74,580

Preparation of Property Tax Bills 6,851

Office Equipment 7,984

Materials and Supplies-

Office Supplies 5,977

Other Charges-

Refunds 12,343

The accompanying notes are an integral part of this financial statement.

SHELBY COUNTY
 SUE CAROLE PERRY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-			
Dues	\$	3,599	
Postage		9,063	
Miscellaneous		8,045	
Capital Outlay-			
Office Equipment		4,532	\$ 611,324
Total Expenditures			<u>\$ 7,829,089</u>
Net Revenues			337,211
Less: Statutory Maximum			<u>84,672</u>
Excess Fees			252,539
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>3,527</u>	<u>7,127</u>
Excess Fees Due County for 2009			245,412
Payment to Fiscal Court - March 2, 2010			<u>245,412</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Shelby County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Shelby County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rob Rothenburger, Shelby County Judge/Executive
The Honorable Sue Carole Perry, Shelby County Clerk
Members of the Shelby County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Shelby County Clerk for the year ended December 31, 2009, and have issued our report thereon dated September 14, 2010. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Shelby County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Shelby County Clerk's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comment and recommendation as items:

The Shelby County Clerk's response to the finding identified in our audit is described in the accompanying comment and recommendations. We did not audit the Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Shelby County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

September 14, 2010

COMMENT AND RECOMMENDATION

SHELBY COUNTY
SUE CAROLE PERRY, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2009

STATE LAWS AND REGULATIONS:

The County Clerk Should Collect Delinquent Taxes Before Renewing Current Year Registrations

The Shelby County Clerk renewed current year registrations before collecting any delinquent ad valorem taxes due. The clerk did this by entering a code into AVIS that would bypass the delinquent taxes and should have only been used for very specific instances that are infrequent in nature. KRS 186A.145 states, "A county clerk shall not process an application for Kentucky title and registration from or to any Kentucky resident who has a delinquent motor vehicle ad valorem property tax account." Also, KRS 186.021(1) states, "a county clerk shall not issue a replacement plate, decal, or registration certificate...or a registration for renewal to any person who on January 1 of any year owned a vehicle on which...ad valorem taxes are delinquent." Not following the proper procedures could lead to the clerk not collecting the delinquent taxes due, and the state, county, school, and other taxing districts losing tax dollars to which they are entitled. We recommend the County Clerk comply with KRS 186A.145 and KRS 186.021 and ensure no registration is issued or renewed until all delinquent taxes associated with it are paid as required. We are referring this matter to the Office of the Attorney General for further review.

County Clerk's Response: I am writing in response to the exit conference addendum dated September 14, 2010. This code was used only to save the tax payers money and the clerk's office time. The only time that this code was used was when the taxpayer had multiple renewals. We did this to save certificates and simplify our point of sale bookkeeping system. We were able to show the auditor staff that the taxes were collected on every one of the transactions. For this reason, I take offense to your opinion that I need to be investigated by the Attorney General's Office for further review. I have been fortunate to serve the people of Shelby County for the past 32 years. I am proud to say that my staff and I strive to follow the laws. I believe that all my staff members are honest people and would not intentionally break the law. We did not feel we were breaking the law since all taxes were collected. I would hope that all concerned would look at the record of the Shelby County Clerk's Office.

Auditor's Reply: This finding is the result of an investigation of several counties by the Department of Revenue, which that agency turned over to law enforcement because of the improper and excessive use of the code mentioned.

